

General Information

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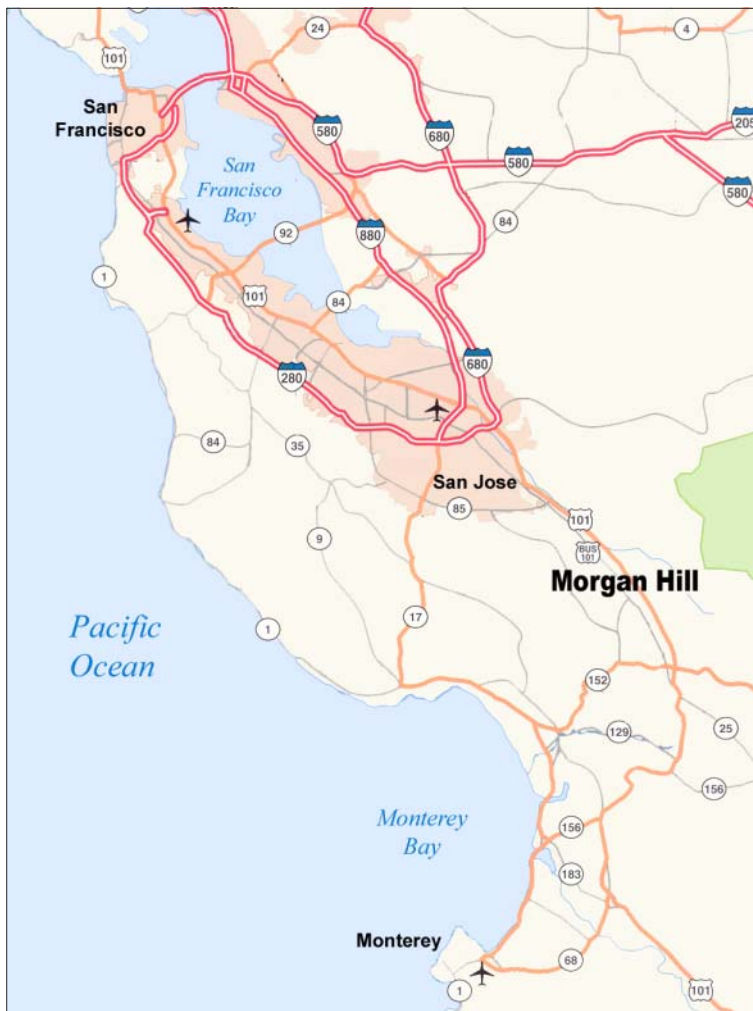
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About the City



Martin's seven sons and daughters had managed to acquire more than 70,000 acres.

In 1851 the youngest son, Daniel, married Maria Fisher, heiress to the neighboring 19,000 acre Rancho Laguna Seca. Diana, their precocious daughter secretly married Hiram Morgan Hill in 1882. When Daniel Murphy died, Diana inherited 4,500 acres of their original rancho in the shadow of El Toro.

Diana and Hiram Morgan Hill built their estate, the Villa Mira Monte, between the railroad and Monterey Road in 1886. When the first Southern Pacific station was built in 1898, the railroad referred to this area as Huntington. Many visitors would request the train stop at "Morgan Hill's Ranch," changing the name to Morgan Hill.

Prior to the arrival of Spanish expeditions en route from Mexico, peaceful tribes of Native Americans inhabited the lush Santa Clara Valley. Under Spanish and Mexican jurisdictions, instituted in 1778, a vast region that includes present day Morgan Hill was one of the most substantial Spanish land grants for nearly three quarters of a century.

In 1845 Martin Murphy, Sr. acquired 9,000 acres known as the Rancho Ojo de Agua de la Coche. Murphy had been a leader of the first party of pioneers to cross the Sierra Nevada range at Truckee Pass, later to become the route for the Southern Pacific Railroad. The Murphy family made its home in the valley below El Toro Mountain. By 1870

By 1896 the growing community had a population of 250 with a post office, depot, two hotels, a restaurant, and several churches and shops. There was much controversy over the incorporation of the city. The Times printed many editorials supporting the issue, while those opposed were fearful of higher taxes. But the "yes" vote won by a margin of 65-36 and Morgan Hill became incorporated November 10, 1906. By 1909 the population rose to 1,000.

The first school was built in 1894, but was soon outgrown and in 1907 architect William Weeks designed a new school. By the 1920s the City was known for its agricultural products including prunes, apricots,

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to participate in an array of organized sports activities such as baseball, soccer, football as well as the availability of dance, gymnastics, and karate studies. The Morgan Hill Unified School District works closely with the city to plan new school campuses.

Thoughtful planning has made Morgan Hill one of the most desirable and fastest growing city in Santa Clara County. People are drawn to the beautiful hillsides surrounding the valley, the peaceful atmosphere, the quaint downtown shops and eateries and general quality of life. Parks and open spaces abound, making Morgan Hill one of the last communities in the region with a charming, small town atmosphere. The fertile soil in and around Morgan Hill help growers produce wonderful fruits, vegetables and award winning wine. Residents and visitors often spend a sunny afternoon visiting some of the local vineyards offering wine tasting and tours, enjoying one of the local golf courses, or floating above the city in a hot air balloon.

The City of Morgan Hill has made a large commitment to the arts and recreation. The Community and Cultural Center, constructed in December 2002 for \$13 million, features space for community members to create art and ceramics, to dance and exercise, and to meet. Part of this project included converting an historic church into a 199-seat theater with a 46-foot stage. In June of 2004, the \$8.7 million Aquatics Center was open to the public and features over 65,000 square feet of pool and pool deck space.

The Valley in which Morgan Hill is located is more than 4 miles wide and is surrounded by the Santa Cruz mountain range to



About the City (continued)

the west, and the Diablo mountain range to the east. Morgan Hill is located in southern Santa Clara Valley, approximately 12 miles south of San Jose, 10 miles north of Gilroy, and 15 miles inland from the Pacific Coast. The city is a short commute to the businesses of the Silicon Valley, and Caltrain runs daily through the city and connects commuters to San Jose's light rail systems throughout the Bay Area. Over the past three years, the city has seen a substantially elevated level of industrial/commercial development. During the last three years, Morgan Hill has gained 1.7 million square feet of building space. Morgan Hill is considered a natural setting for business—a balanced business environment that inspires innovation and productivity. From its picturesque hillside setting and exceptional quality of life.

Founded in 1906, Morgan Hill is a general law city with a council-manager form of government. The four Councilmembers are elected in municipal elections to four-year terms. The Mayor is directly elected to serve a two-year term. In addition to the Council, the City Clerk and City Treasurer are also elected to four-year terms. The city has a volunteer Planning Commission, made up of seven members appointed by a majority vote of the Council to four-year terms. Other advisory boards include the Architecture and Site Review, Bicycle Advisory, Library, Mobile Home Rent Control, Parks and Recreation, Senior Advisory and Youth Advisory commissions.

Projected Growth

	2000	2010	% incr
Population	32,122	38,800 ¹	21%
Households	12,430	15,440	24%
Employed	20,700	23,800	15%
Jobs	15,220	19,970	31%

Source: Projection 2000 Association of Bay Area Governments. ¹ City of Morgan Hill General Plan 2000

Top Employers (May 2005)

Morgan Hill Unified School District	866
Hospira	565
Anritsu	485
Comcast Cable	355
Safeway	328
Fox Racing, USA	306
EDO Reconnaissance	300
Paramit Corporation	243
City of Morgan Hill	181
The Thomas Kinkade Co	177
Global Motorsport Group	175
Target Store	146
Specialized Bicycle Components	141
Metro One Telecommunications	135
Alien Technology	134
Infineon Technologies	132
Northcoast Medical	128
Mervyns	121
Mission Bell Manufacturing	120
The Home Depot	109
Sun Valley Technical Repair	108
Covenant Care MH	105

Morgan Hill At A Glance

Incorporated:	1906
Population:	36,423
Households:	12,092
Median Household Income:	\$82,150
Persons per households:	3.037
Square Miles:	12
Elevation (above sea level):	320'
Average Rainfall:	22.28"
Average Temperature	
January: High	58.1
Low	46.4
July: High	81.5
Low	54.4
Retail sales tax:	8.25%
Public Schools:	15
Churches:	21
Libraries:	1
Newspapers/New Publications:	3



City of
Morgan Hill
Finance Department

Memorandum

Date: February 3, 2005
To: Budget Team
From: Chu Thai, Budget Manager
Subject: FY 2005/06 BUDGET GUIDELINES AND INSTRUCTIONS

Important Dates	Event	Responsibility
Thu, Feb 3	Distribute Budget Packets & City Manager's Budget Instructions	Finance & CMO
Mon, Mar 1	Review and approve proposed Personnel Allocation Schedule due	All Departments
Mon, Mar 1	Projected FY 2004/05 revenues and expenditures due (Draft, Exclude CIP) Projected FY 2005/06 revenues due (Draft)	All Departments
Mon, Mar 1	Proposed FY 2005/06 ISF division expenditures due (Risk Management, Information Systems, Building Maintenance, and Equipment Replacement. Exclude CIP Administration)	ISF Divisions
Mon, Mar 8	Final Salary & Benefits and ISF charges given to Departments	Finance
Mon, Mar 15	Draft CIP Program due. (Projected FY 2004/05, Proposed FY 2005/06 through FY 2009/10)	CIP Departments
Late March	CIP Information and review meeting to include PW, BAHS, Recreation, Community Development, Finance & CMO. Development revenue review with Planning, Building, Engineering & Finance	CIP Departments
Fri, Apr 2	Draft FY 2005/06 Expenditures due. Final Projected FY 2004/05 revenues and expenditures due, final Projected FY 2005/06 revenues due. Department Narratives (Performance Measures, Workplans, Goals and Accomplishments) due.	All Departments
April	Parks & Rec. and Planning commissions review Proposed CIP Program	CIP Department
Apr 11-22	Department meetings with the City Manager	All Departments
Apr 11-28	Final changes made to budget. No more department changes after Apr 28.	All Departments
Fri, Apr 29	Budget locked down by Finance. Start developing Council presentations	All Departments
Fri, May 13	Proposed FY 2005/06 Budget given to City Clerk's office for distribution	Finance
Wed, May 18	Proposed FY 2005/06 Budget presented to City Council as agenda item	Finance
Fri, May 20	Proposed Workshop with City Council. Department presentations	All Departments
Wed, Jun 15	Public Hearing for Proposed FY 2005/06 Budget & CIP Program and Workplan	All Departments
Wed, Jun 22	Proposed adoption of FY 2005/06 Budget. Prepare document for printer and website	Finance

Budget Overview

The Budget Overview contains general information regarding the budget process, including the budget guide, a description of the budget process, basis of accounting, Gann appropriation limit calculations, key revenue projections and assumptions, a description of allocated costs, budget policies, description of debt obligations and comparison of financial information to other jurisdictions. A description of funds and glossary of terms are also included in this section.

BUDGET GUIDE

This budget document contains the complete budget for the Fiscal Year 2005/06 for the City of Morgan Hill and the Redevelopment Agency of the City of Morgan Hill. Included are the budgets for the City's General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds, Enterprise Funds, Internal Service Funds, Agency Funds, Redevelopment Agency Funds and Capital Projects and Housing Funds. A complete copy of the Capital Improvement Plan (CIP) is also included.

The **Budget Message** includes the City Manager's letter of transmittal which focuses on the local economy, the budget as a plan for service delivery and the goals of staff for implementation of service levels.

Fund Balances contains a summary of all budgeted funds. Each fund shows estimated beginning fund balance at July 1, 2005, projected revenues, expenditures, transfers in, transfers out and projected ending fund balance at June 30, 2006. Also included in this section is a bar chart reflecting a five-year trend for the General Fund fund balance.

Summaries are prepared for **Revenues** and **Appropriations** for all funds. These summaries include prior year's actual, 2004/05 projected and budgeted, and 2005/06 proposed activity. General Fund revenues and expenditures are also summarized using graphs and/or bar charts for comparison purposes.

Personnel levels have a direct effect on public services. The **Staffing** section shows staffing levels by function. Organization charts are provided in this section and in each departmental budget where applicable.

Departmental budgets also include a description of the department's activities, current year highlights, goals for the coming fiscal year and performance measures. The sections for each department contains historical information on staffing and expenditures.

Included in the **Supplemental Information** section are various reports regarding important issues facing the City.

A complete copy of the Five Year Capital Improvement Plan (CIP) is included under the heading of **Capital Programs**. The five year document represents a plan of improvements, a detailed description of each project and the available funding sources.

BUDGET TIMELINE

The Budget is based upon an in-depth analysis of actual and projected fund balances, revenues, and expenditures. Each City department prepares line item detail for each of their activities and recommends certain service levels and activity goals for the upcoming budget year. The Finance Department prepares revenue projections based upon input from other departments. The City Manager then reviews individual departmental requests, prioritizes activities based upon City Council policy, and makes certain adjustments. At the conclusion of this process, the proposed budget is prepared and is submitted to the City Council for review.

The City of Morgan Hill has prepared a one-year budget for Fiscal Year 2005/06. Beginning in February 2005, each department was provided with a budget calendar, information packet and various Finance prepared data. Departments submitted proposed revenues and

Budget Overview (continued)

expenditures for the 2005/06 fiscal year based on certain service levels and activity goals. In addition, the City Manager gave each General Fund department an initial target based on the difference between departmental expenditures and departmental revenues. Departments were instructed to meet these targets through expenditure reductions and/or revenue increases so that a net \$1.2 million General Fund cost could be obtained for 2005/06. General government revenue projections were prepared by Finance. This process, overseen by the City Manager, was completed in May 2005. The City Manager's recommended budget was presented to the City Council on May 18, 2005. Following a Council workshop on May 20, 2005 and a public hearing on June 15, 2005, the fiscal year 2005/06 budget was adopted June 22, 2005.

BUDGET APPROPRIATIONS

Appropriations are the amounts approved for expenditure by the City Council with the adoption of the annual budget and subsequent budget amendments which are brought to the Council for their approval. Appropriations are separated by object categories within an activity budget. The object categories available are: 1) Employee Services; 2) Supplies and Services; 3) Capital Outlay; 4) Debt Service; 5) Internal Services; and 6) Transfers. The legal level of control is established as follows:

A Department Director has the authority to transfer between lines items within an activity to facilitate the functions of the activity in accordance with the directions, goals and policies of the City Council. The City Manager is authorized to transfer appropriations within an activity to facilitate the functions of that activity in accordance with the directions, goals and policies of the City Council.

A transfer of appropriations between activities requires City Council approval. Additional appropriations require City Council approval. New programs and new appropriations not anticipated during the budget process require City Council approval.

BUDGETARY CONTROL

Budgetary control is maintained through monthly reports of revenue and expenditure accounts. The detailed monthly reports are reviewed by the City Manager and each Department Director. The City Council is provided a summary report each month. The monthly report is reviewed by the Audit and Finance Committee. The Committee is composed of two Councilmembers and the City Treasurer. The Director of Finance serves as staff to the Committee.

A mid-year budget review and adjustment process is completed each January and submitted to the Council for review and approval in February. Budgetary adjustments are only considered within the framework of the adopted budget and the City Council directions, goals and policies. New programs and new appropriations are not considered as part of the mid-year budget review.

BUDGET AMENDMENTS

The budget as adopted by the City Council can be amended during the fiscal year. The need to amend or adjust the budget typically arises in response to unforeseen circumstances or events. For example, the Council is required to formally recognize the receipt of unanticipated revenue before the City can legally accept and spend new money. In other cases, a department may need to transfer funds to cover an unexpected shortfall in another account.

Budget Overview (continued)

The City Manager is authorized to amend Council-approved appropriations at the activity level if, in the City Manager's opinion, such amendments are necessary and proper. The appropriation adjustment process consists of the following steps:

- 1) An "Appropriation Request/Transfer Form" is prepared by the department.
- 2) The request is submitted to Finance Department for review
- 3) The request is submitted to the City Manager for approval
- 4) Once approved, the request is returned to Finance Department to make the necessary adjustments.
- 5) The department receives authorization to use the adjusted appropriations.

If the request involves more than one activity or fund, Council approval is required in addition to City Manager approval.

In August/September, staff also requests that the City Council "rebudget" prior year's unexpended appropriations primarily for capital projects. In addition, staff requests that the City Council take action on final budget amendments to the prior year to assure that prior year's expenditures are below prior year's Council approved budget appropriations.

BASIS OF ACCOUNTING

Governmental funds include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds. These funds are accounted for using the modified accrual basis of accounting. Agency funds are also accounted for using the modified accrual basis.

Proprietary funds include Enterprise Funds and Internal Service Funds. These funds are accounted for using the accrual basis of accounting.

The budgetary process is based upon accounting for certain transactions on a basis other than generally accepted accounting principles (GAAP basis). The major difference between the budgetary basis and GAAP basis is that year end encumbrances are recognized as the equivalent of expenditures on the budgetary basis in governmental funds, while encumbered amounts are not recognized as expenditures on the GAAP basis.

ALLOCATED COSTS

The City of Morgan Hill has seven internal service funds. These funds account for the costs of services provided to other City departments. Costs are allocated to user departments based on various factors such as square footage, personnel, number of computer workstations and historical trends.

In addition to Internal Service funds, the City of Morgan Hill allocates General Fund overhead to other funds/departments as General Administration Overhead charge. The total administrative charge for the budget year 2005/06 is \$1,791,375. These charges are based on services provided on the basis of General Fund departments and are allocated by estimated service levels and personnel.

Budget Administrative Policies - With the adoption of the annual budget, the City Council recognizes that the appropriations for the operating activities and capital budgets are based on estimates of municipal needs for the fiscal year. In order to establish reasonable flexibility in the administration of the budget, the following policies have been adopted. These policies are intended to provide the authority necessary for the City Manager and Department Directors to administer the budget during the fiscal year in accordance with City Council directions, goals and policies, and in light of varying conditions which may occur.

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<u>District</u>	<u>Year of Issue</u>	<u>Year of Maturity</u>	<u>05/06 Debt Services</u>	<u>Outstanding Principal</u>
Cochrane Bus Park	1986	2012	\$ 185,683	865,000
Joleen Way	1992	2009	29,000	80,000

	Due	05/06	Outstanding
<u>Other Bonds</u>	<u>Date</u>	<u>Debt Services</u>	<u>Principal</u>
2002 SCRWA	2023	1,810,038	22,305,000
1993 Water Facilities	2017	148,388	1,293,094
1999 COP	2021	385,233	4,000,000
2004 Police Facility	2034	\$483,763	7,225,000
2004 Water Bond	2034	351,125	7,740,000

Within the Comprehensive Annual Financial Report (CAFR), the City calculates its legal debt limit (the maximum amount of debt the City can issue) and compares it to the debt outstanding at the end of the year to produce the legal debt margin (the amount of debt the City can issue in future years). Currently, the City has no outstanding legal debt, and is within its legal debt margin of \$629,964,315.

Fiscal Policies

1. REVENUE

- A. The City will endeavor to maintain a diversified and stable revenue base to minimize the effects of economic fluctuations on revenue generation.
- B. The City will estimate revenues using an objective, analytical process; in the case of uncertainty, conservative projections will be utilized.
- C. The City will fund all current expenditures from current revenues and available fund balance, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues, or rolling over short-term debt.
- D. Development process costs and related administrative expenses will be offset by development fees.
- E. The City will identify basic tax-provided services and will establish user fees and charges for services provided in excess of basic services.
- F. City staff will provide monthly reports to the City Council which compare and analyze year-to-date actual revenues and expenditures to budget.

2. RESERVES & DESIGNATIONS

Purpose

- A. The City of Morgan Hill commits to target the minimum level necessary to maintain the City's credit worthiness and to adequately provide for economic uncertainties, local disasters or catastrophes, future debt or capital obligations, cash flow requirements and legal requirements.
- B. The City shall maintain unappropriated fund balance or working capital in the General Fund, Water and Sewer operating funds, Water and Sewer rate stabilization funds, Community Development Fund, and certain internal service funds.

Policy

- C. General Fund – As adopted at the City Council Policies & Goal Setting retreat on February 18, 2004:

General Fund Reserves may be used to support General Fund expenditures as long as:

- 1. Revenues and expenditures balance by June 30, 2008, and
- 2. Reserve levels are not depleted below 25% of revenues in any year with the following exception:
 - a. reserves below 25% may be invested in long term cost savings projects or high return economic development projects, and
 - b. reserves shall never be depleted below 10% of revenues which shall be maintained as an ongoing reserve for emergencies.

- D. Water and Sewer Operating Funds – The City shall make every effort to keep a minimum reserve level of 25% of the appropriated operating budget for each of these enterprise operating funds.

- E. Water and Sewer Rate Stabilization Funds – The City shall make every effort to keep a minimum reserve level for each of these funds equal to 20% of the annual estimated utility usage revenue accounted in for in the operating budget, in case of a temporary drop in customer demand.

- F. Community Development Fund – The City shall make every effort to keep a minimum reserve level of 30% of the appropriated operating budget for the Community Development Fund, in order to provide for those temporary periods when less development activity occurs and less revenue is collected by the City.

- G. Unemployment – The City shall make every effort to maintain a minimum reserve level in the Unemployment Fund equal to 100% of the appropriation for unemployment claims.

Fiscal Policies (continued)

H. Worker's Compensation – The City shall make every effort to maintain a minimum reserve level for Worker's Compensation equal to the sum of twice the self insured amount for a single claim.

I. General Liability – The City shall make every effort to maintain a minimum reserve level equal four times the self insured retention for general liability.

Budgetary Designations

J. A portion of General Fund Balance will be designated for economic uncertainties and not be reflected in available fund balance for budget purposes. This is to avoid the need for service level reductions in the event an economic downturn causes revenues to come in lower than budget.

K. Reserves for Encumbrances and Continuing Appropriations are established at the end of every fiscal year to reserve fund balance in the amount equal to the City's unpaid obligations and unfinished projects at year-end.

L. Other reserves, such as for cash flow needs or anticipated costs for service enhancements, will be established each fiscal year as needed.

3. CASH MANAGEMENT

A. City investments and cash management will be the responsibility of the City Treasurer.

B. In accordance with Section 53646 of the Government Code, the City Council will review and update annually, a specific investment policy. The primary purpose of this policy is to set forth the City's investment philosophy and objectives. The City's investment objectives are, in order of priority: 1) safety, 2) liquidity,

and 3) yield. The policy also specifically outlines authorized investments, the acceptable percentages and maximum maturities allowed for each investment instrument and the criteria used to determine qualified depositories/dealers.

C. The City invests all idle cash as determined by analysis of anticipated cash flow needs. Specific emphasis will be placed on future cash requirements when selecting maturity dates to avoid forced liquidations and the potential corresponding loss of investment earnings.

D. In order to maximize yields from the overall portfolio, the City will consolidate cash balances from all funds for investment purposes, and will allocate investment earnings to each fund in accordance with generally accepted accounting principles.

E. The City Treasurer will generate a monthly report to the City Council in conformance with all State laws and City investment policy requirements.

F. The City's independent auditors, in conjunction with their annual audit, will audit the cash and investment balances in conformance with generally accepted accounting principles.

4. OPERATING BUDGET

A. The City of Morgan Hill's Operating Budget will be developed on an annual basis. Appropriations for each year will be approved by the City Council.

B. The City's Budget Document will include selected performance measures to better describe the workload of the different City programs, to gauge our effectiveness in providing services, and to ultimately be able to compare the City's overall performance with other like agencies.

Fiscal Policies (continued)

C. The City will avoid budgetary and accounting procedures that balance the current budget at the expense of future budgets.

D. The legal level of control is established as follows: The Department Director has the authority to transfer between line items within an activity to facilitate the functions of the activity in accordance with the directions, goals and policies of the City Council. The City Manager is authorized to transfer appropriations within an activity budget to facilitate the functions of that activity in accordance with the directions, goals and policies of the City Council. A transfer of appropriations between activities, additional appropriations, new programs or new appropriations require the authorization of the City Council.

E. Mid-year budget adjustment reports will be presented to Council in February of each fiscal year, if necessary.

5. PRINCIPLES TO GUIDE THE SUSTAINABLE BUDGET STRATEGY

It is suggested the Council adopt the following principles to guide the Sustainable Budget Strategy:

1. Critical services should be maintained to the greatest extent possible.
2. Resources should be allocated to the highest priority services.
3. No city services or functions should be exempt from evaluation.
4. "Across the Board" approaches shall be avoided because they are not aligned with the Council's and community's priorities.
5. Reductions in service should position the City to take advantage of economic recovery.
6. Budget cuts should be ongoing and not simply "one time only."

7. Council should commit to support employees during the transition, and assist those who may be adversely impacted.

8. Employees and their recognized bargaining units should be actively involved in developing options and implementing the transition.

9. The City should continue to invest in building organizational capacity by supporting training and employee development.

10. Community wide tax resources should be allocated first to support community wide services.

11. Special services designed for only a few should be paid for by user charges and fees.

12. Administrative and operational efficiencies should be maximized before pursuing new tax revenue.

13. Reserves and one time revenues should be used first to invest in capital outlay items that could reduce long range operating costs and , thereafter, fund transition expenses.

14. New services should not be added nor existing services expanded unless they are highly valued by the community and there is a willingness to pay for them.

15. There should be regular monitoring of financial performance and opportunities to make mid-course corrections as warranted.

16. City policies that may inhibit economic development, especially new retail development, should be reviewed regularly and modified.

DEBT - The City is currently developing its debt policy.

Description of Funds

GENERAL FUND

The General Fund is a governmental fund used to account for the day-to-day operations of the City. All financial activity that is not required to be accounted for in another fund is included in the General Fund. Public safety, government administration, recreation, and park maintenance are funded from the General Fund.

General Fund (010)

The General Fund receives all general taxes, such as property taxes, sales taxes and transient occupancy taxes, licenses and permits, funding from other government agencies such as vehicle-in-lieu fees, fines and penalties, interest, rentals not specifically designated for another fund, and charges for current services.

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments and major capital projects) that are legally restricted to expenditures for specified purposes.

Street Fund (202)

The Street Fund is a special revenue fund used to account for the receipt and disbursement of State and Federal gas tax and grant monies, and other monies that are to be used for the maintenance, repair, and design of streets. State gas tax funds are distributed to cities based on population from gas taxes collected at the point of sale. The use of gas tax funds is restricted to street expenditures by State and Federal legislation.

Supplemental Law Enforcement Funds (204/205)

The Supplemental Law Enforcement Fund is a special revenue fund used to account for the receipt and disbursement of State and Federal grant monies that provide for the restoration of public safety services. The use of grant monies in this fund is legally restricted for the funding of public safety officers and/or supplies under the terms of the grants.

Community Development Fund (206)

The Community Development Fund is a special revenue fund used to account for the collection of planning, building, and engineering fees. The expenditures of these funds are restricted to the costs associated with processing building, engineering and planning applications.

General Plan Update Fund (207)

The General Plan Update Fund is a special revenue fund established to account for the costs of updating the General Plan. The update has been funded by transfers from various funds: General, Park Development Impact, Community Development, Redevelopment, Housing, Sewer, and Water. The expenditures are restricted to costs incurred for the General Plan update.

Community Recreation Centers Startup Fund (210)

The Community Center Fund was established to provide a vehicle for the accumulation of funds and future interest earnings to help offset the start up costs and costs of operation and maintenance for new community facilities.

CDBG/CDBG Revolving Loan Funds (215/216)

The Community Development Block Grant (CDBG) and CDBG Revolving Loan Funds are special revenue funds used to account for Federal low and moderate income housing program funds. These funds are restricted to low and moderate income housing uses.

Environmental Programs Fund (232)

The Solid Waste Management Fund is a special revenue fund established to account for the costs of developing and implementing waste reduction programs and administering the City's franchise agreement for solid waste. The revenues for this fund come from a portion of the franchise fees for garbage services and are restricted to the above uses.

Description of Funds (continued)

Other Special Revenue Funds

There are seven other small special revenue funds. The balances in these funds are restricted by law and/or ordinance. The funds include:

- **Asset Seizure (225)**
- **Lighting and Landscape (229)**
- **Mobile Home Park Rent Stabilization (234)**
- **Senior Housing Trust Fund (235)**
- **Housing Mitigation Fund (236)**
- **Employee Assistance Fund (240)**
- **Environmental Remediation Fund (247).**

The Senior Housing Trust Fund was established to account for the funds that were set aside to fund programs for elderly persons over the age of 55, while the Housing Mitigation Fund was established to provide for housing related programs and projects.

CAPITAL PROJECTS FUNDS

The Capital Projects Funds are used to account for the financial resources to be used for acquisition and/or construction and/or maintenance of capital facilities. The funds are restricted by State law and/or City ordinance for specific uses. AB1600 restricts the collection and use of certain development impact fees. AB1600 (Government Code Sect. 66000-66003) indicates that there must be a reasonable relationship between the fee and the purpose for which it was charged. The following funds are the Capital Projects Funds:

Park Development Fund (301)

Park Development Impact Fund revenues are received from developers of properties. The funds may only be used for the design, development and construction of new parks within the City. (Fund is subject to the restrictions of AB1600.)

Park Maintenance/Development Fund (302)

Park Maintenance/Development Fund receives revenues from developers of properties and the funds may only be used for the maintenance and development of the City's parks.

Local Drainage Impact Fund (303)

Local Drainage Impact Fund revenues are received from developers of properties and the funds may only be used for the design and construction of new storm drains. (Fund is subject to the restrictions of AB1600.)

Local Drainage Fund (304)

Local Drainage Fund revenues are received from developers of properties and the funds may be used for the design, construction, and maintenance of storm drains.

Open Space Fund (306)

This is a new fund set up to account for open space fees collected from developers. These funds are to be expensed for open space expenditures.

Traffic Impact Fund (309)

Traffic Impact Fund revenues are received from developers if their projects have an adverse impact on traffic flows, streets, etc. The funds collected may be expended on new streets, traffic signals, and improvements of existing streets where they are impacted by new development. (Fund is subject to the restrictions of AB1600.)

Police Impact Fund (311)

Police Impact Fund revenues are derived from a fee charged to developers to cover the costs to construct public improvements for Police facilities needed as a result of new development. Expenditures may only be made for the future construction of the required new Police facilities or to reimburse the City for funds advanced to construct such facilities. (Fund is subject to the restrictions of AB1600.)

Description of Funds (continued)

Fire Impact Fund (313)

Fire Impact Fund revenues are derived from a fee charged to developers to cover the costs to construct public improvements required for Fire facilities as a result of new development. Expenditures may only be made for the future construction of the required new Fire facilities or to reimburse the City for sums advanced to construct such facilities. (Fund is subject to the restrictions of AB1600.)

Redevelopment Project Fund (317)

The City of Morgan Hill Redevelopment Agency, established in 1980, has as one of its primary goals, the rehabilitation of revitalization of blighted areas in residential neighborhoods and business districts. The Redevelopment Agency uses tax increment to fund various projects throughout the City of Morgan Hill that improve the quality of life for City residents. The projects provide residential and commercial improvements that develop underutilized and vacant lands, assist in providing affordable housing, assist in the business attraction, retention and rehabilitation programs, and provide community services such as housing and business counseling. In addition, the Redevelopment Agency also provides financial assistance in many of the capital improvement projects that rehabilitate and construct the City's infrastructure such as the streets, water and sewer lines, storm drains, and community facilities.

The Health and Safety Code of the State of California specifies the funds that Redevelopment Agencies are to use to account for the activity of an Agency. Redevelopment Project Fund accounts for the activities of the Redevelopment Agency capital projects, economic development, and the administrative costs of the Agency. Expenditures may be made from this fund only for the design, engineering, administration, construction and other costs associated with Redevelopment projects.

Redevelopment Housing Funds (327/328)

Redevelopment Housing Funds account for the 20% set-aside funds collected from property tax increment for housing programs. Expenditures may be made from this fund only for the design, engineering, administration, construction and other costs associated with Redevelopment housing projects.

Public Facilities Impact Funds (346/347)

Public Facilities Impact Fund revenues are derived from fees charged to developers to cover the costs to construct public improvements required as a result of new development. Expenditures may only be made for the future construction of the required new facilities or to reimburse the City for funds advanced to construct such facilities. (Fund 347 is subject to the restrictions of AB1600.)

Library Impact Fund (348)

Library Impact Fund revenues are derived from a fee charged to developers to cover the costs to construct library improvements required as a result of new development. Expenditures may only be made for the future construction of the required new library facilities or to reimburse the City for funds advanced to construct such facilities. (Fund is subject to the restrictions of AB1600.)

Undergrounding Fund (350)

Undergrounding Fund receives revenues from developers for the undergrounding of utilities in areas of new development. Expenditures may be made from these funds only for the design and construction associated with such undergrounding.

Community Recreation Centers Impact Fund (360)

This fund was set up to collect revenues derived from a fee charged to developers to cover the costs to construct new community centers within Morgan Hill.

Description of Funds (continued)

DEBT SERVICE FUNDS

Debt Service Funds are used to account for the accumulation of resources for, and payment of, general long-term debt principal, interest, and related costs.

Police Facility Bond Debt Service (441)

A fund to track related transactions of the 2004 bond issued to build the Police Station.

Assessment District Funds (527-551)

Assessment District funds are established to permit the City to sell bonds to provide the funds to construct improvements in new developments. Property assessments are collected from property owners within the assessment district for a proportional share of the improvements, and debt service payments for the bonds are made from the assessments collected. These funds are restricted by the bond covenants and agreements.

ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Sewer Operations Fund (640)

The Sewer Operations Fund receives revenues from user charges based on sewer usage. All expenditures for the operation of the sewer system including maintenance, and debt service are charged to the Sewer Operations Fund.

Sewer Impact Fund (641)

The Sewer Impact Fund receives revenues from developer charges to cover the costs to construct sewer improvements required as a result of new development. Expenditures may only be made for the construction of the required improvements or to reimburse the City for funds advanced to construct such improvements. (Fund is subject to the restrictions of AB1600.)

Sewer Rate Stabilization Fund (642)

The Sewer Rate Stabilization Fund was established to avoid fluctuations in the sewer rates charged. The fund was initially funded with onetime revenue. The initial contribution to the Rate Stabilization Fund was \$4,000,000 from the Sewer Operations Fund.

Sewer System Replacement Fund (643)

This fund was established to avoid fluctuations in the sewer rates charged by providing reserve funding for future system replacements. The fund was initially funded with one-time revenues. The initial contribution to the System Replacement Fund was \$1,300,000 from the Sewer Operations Fund. Future funding will come from transfers from the Operations Fund.

Water Operations Fund (650)

The Operations Fund receives revenues from user charges based on water usage. All expenditures for the operation of the water system including maintenance, and debt service are charged to the Water Operations Fund.

Water Impact Fund (651)

The Impact Fund receives revenues from developer charges to cover the costs to construct water improvements required as a result of the new development. Expenditures may only be made for the construction of the required improvements or to reimburse the City for funds advanced to construct such improvements. (Fund is subject to the restrictions of AB1600.)

Water Rate Stabilization Fund (652)

The Rate Stabilization Fund was established to avoid fluctuations in the water rates charged. The fund was initially funded with one-time revenue. The initial contribution to the Rate Stabilization Fund was \$800,000 from the Water Operations Fund.

[illegible]



Glossary of Budget & Financial Terms

Accounting System: The total set of records and procedures which are used to record, classify, and report information on the financial status and operations of an entity.

Appropriation: An authorization made by the City Council which permits officials to incur obligations against and to make expenditures of governmental resources for a specific purpose within the budget year, July 1 through June 30.

Assessed Valuation: The estimated value placed upon real and personal property by the County Assessor as the basis for levying property taxes.

Assets: Property owned by the City which has monetary value.

Audit: A systematic examination of the City's financial records and processes concluding in a written report. It includes test of management's internal accounting controls and is intended to:

- ascertain whether financial statements fairly present financial positions and results of operations;
- test whether transactions have been legally performed; and
- identify areas for possible improvements in accounting practices and procedures.

Balance Sheet: A statement presenting the financial position of an entity by disclosing its assets, liabilities, and fund equities as of a specific date.

Bond (Debt Instrument): A written promise to pay (debt) a specified sum of money (called principal or face value) at a specified future date (called the maturity date) along with periodic interest paid at a specified percentage of the principal (interest rate). Bonds are typically used for long-term debt to pay for specific capital expenditures.

Budget (Operating): A plan of financial operation listing an estimate of proposed expenditures (appropriations) for a given period (typically a fiscal year) and the proposed means of financing them (revenue estimates).

Budget Calendar: The schedule of key dates or milestones which the City follows in the preparation and adoption of the budget.

Budget Message: A discussion of the proposed budget presented by the City Manager in writing as a part of, or supplement to, the budget document. The budget message explains principal budget issues against the background of financial experience in recent years and presents recommendations made.

Capital Assets: Assets of significant value and having a useful life of more than one year. Capital assets are also called fixed assets.

CITY OF MORGAN HILL • FY 2005/06 • OPERATING AND CIP BUDGET

CITY OF MORGAN HILL • FY 2005/06 • OPERATING AND CIP BUDGET

Glossary (continued)

Enterprise Fund:	Separate fund used to account for government operations that are financed and operated in a manner similar to business enterprises. These programs are entirely or predominantly self-supporting. Examples of Enterprise Funds are those used for sewer and water systems.
Expenditures:	The payment against an appropriation for goods received or services rendered.
Fiscal Year:	The twelve-month period beginning July 1st and ending the following June 30 th .
Fund:	An independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives.
Fund Balance:	The excess of an entity's assets over its liabilities representing the cumulative effect of revenues and other resources over expenditures and other uses.
General Fund:	The fund supported by taxes, fees, and other revenues that may be used for any lawful purpose. The general fund accounts for all financial resources except those required to be accounted for in another fund. This fund accounts for the general operating programs of the City.
General Obligation Bonds:	When the City pledges its full faith and credit to repayment of the bonds it issues, then those bonds are general obligation (G.O.) bonds. Sometimes the term is also used to refer to bonds which are to be repaid from taxes and other general revenues. In California, G.O. bonds issued after 1977 must be authorized by public referenda with two-thirds voter approval.
Infrastructure:	All City owned facilities supporting the operation of the governmental unit. It includes: streets, roads, bridges, curbs and gutters, parks, water and sewer lines, storm drains, water pump stations and reservoirs, water wells, sewer lift stations, all government buildings and related facilities.
Intergovernmental Grant:	A contribution of assets (usually cash) by one governmental unit or other organization to another. Typically, these contributions are made to local governments from the State and Federal Governments. Grants are usually made for specified purposes.
Internal Service Fund:	Funds used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City.

CITY OF MORGAN HILL • FY 2005/06 • OPERATING AND CIP BUDGET

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City Budget & Appropriations Limit (continued)

City of Morgan Hill
Resolution No. 5913
Page 2

• CERTIFICATION •

I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA, do hereby certify that the foregoing is a true and correct copy of Resolution No. 5913 adopted by the City Council at a Regular Meeting held on June 22, 2005.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL

DATE: 6-24-05


MOIRA MALONE, Deputy City Clerk

City Budget & Appropriations Limit (continued)

SCHEDULE A

CITY OF MORGAN HILL SPENDING LIMIT CALCULATION FISCAL YEAR 2005/06

APPROPRIATIONS SUBJECT TO LIMIT

Fiscal Year 2005/06 General Fund Revenues	\$18,717,301
Less Non Proceeds of Tax	5,676,410
Total appropriations subject to limits	<u>\$13,040,891</u>

APPROPRIATIONS LIMIT

Fiscal year 2004/05 appropriations limit	\$54,717,489
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Plus Change Factor:

A. Cost of living adjustment - CPI	1.0526
B. Population Adjustment	1.0290

Total Change Factor	1.08312540
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Increase in appropriations limit	<u>4,548,413</u>
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FISCAL YEAR 2005/06 APPROPRIATIONS LIMIT	<u>59,265,902</u>
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Remaining appropriations capacity	46,225,011
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Available capacity as a percent of appropriations limit	<u>78%</u>
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NOTES

- Cost of Living adjustment is based on percentage change in California per capita income.
- Population adjustment is based on the greater of annual population change for the City of Morgan Hill or Santa Clara County.

City Budget & Appropriations Limit (continued)

SCHEDULE B

CITY OF MORGAN HILL SPENDING LIMIT CALCULATION FISCAL YEAR 2005/06

REVENUE SOURCE	PROCEEDS OF TAX	NON PROCEEDS OF TAX	TOTALS
Property Tax	\$4,581,300		4,581,300
Sales Tax	5,724,600		5,724,600
Transient Occupancy Tax	974,560		974,560
Franchise Revenue	1,030,700		1,030,700
Property Transfer Tax	378,575		378,575
Business License / Other Permits	162,380		162,380
Motor Vehicle in Lieu	188,776		188,776
Fines and Penalties		63,500	63,500
Use of Money and Property		908,000	908,000
Other Revenue / Other Agencies		\$361,070	361,070
Police and Fire Fees		407,100	407,100
Current Service Charges General Govt.		3,484,875	3,484,875
Transfers		451,865	451,865
Total	<u>\$13,040,891</u>	<u>\$5,676,410</u>	<u>\$18,717,301</u>
Percentage of Total	<u>70%</u>	<u>30%</u>	<u>100.00%</u>

Adoption of the RDA Budget

RESOLUTION NO. MHRA-255

A RESOLUTION OF THE REDEVELOPMENT AGENCY OF THE CITY OF MORGAN HILL ADOPTING THE 2005/06 ANNUAL AGENCY BUDGET

WHEREAS, the Redevelopment Agency of the City of Morgan Hill Budget for the 2005/06 fiscal year was prepared by Redevelopment Agency and City staff and was reviewed by the City Manager/Executive Director;

WHEREAS, the Redevelopment Agency of the City of Morgan Hill Budget for the 2005/06 fiscal year was presented to the City Council on May 18, 2005, was reviewed at a Public Workshop on May 20, 2005, was further reviewed at a Public Hearing on June 15, 2005;

WHEREAS, modifications and amendments to the adopted 2005/06 Redevelopment Agency of the City of Morgan Hill Budget can only be made in accordance with the "Budget Administrative Policies" described in the Proposed Budget;

NOW, THEREFORE, the Redevelopment Agency Board finds that planning and administrative costs attributable to the Housing 20% Set-Aside fund are necessary and proportionate to amounts proposed for actual housing activities during the fiscal year; and

NOW, THEREFORE, BE IT RESOLVED that the Agency Board of the Redevelopment Agency of the City of Morgan Hill does hereby approve and adopt the Redevelopment Agency of the City of Morgan Hill 2005/06 Budget.

PASSED AND ADOPTED by the Morgan Hill Redevelopment Agency at a Special Meeting held on the 22th day of June, 2005 by the following vote:

AYES:	AGENCY MEMBERS:	
NOES:	AGENCY MEMBERS:	None
ABSENT:	AGENCY MEMBERS:	None
ABSTAIN:	AGENCY MEMBERS:	None

• CERTIFICATION •

I, **IRMA TORREZ, AGENCY SECRETARY**, do hereby certify that the foregoing is a true and correct copy of Resolution No. MHRA-255 adopted by the Morgan Hill Redevelopment Agency at the Special Meeting of June 22, 2005

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL

DATE: 6-24-05


MOIRA MALONE
DEPUTY AGENCY SECRETARY